

# FUND 506

## HEALTH BENEFITS TRUST FUND

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### ***Board of Supervisors' Adjustments***

***The following funding adjustments reflect all changes to the FY 2004 Advertised Budget Plan, as approved by the Board of Supervisors on April 28, 2003:***

- ◆ The Board of Supervisors made no adjustments to the FY 2004 Advertised Budget Plan.

***The following funding adjustments reflect all approved changes to the FY 2003 Revised Budget Plan from January 1, 2003 through April 21, 2003. Included are all adjustments made as part of the FY 2003 Third Quarter Review:***

- ◆ A net increase of \$465,936 in expenditures based on employee enrollment choices, and escalating medical and prescription claims costs.

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### ***County Executive Proposed FY 2004 Advertised Budget Plan***

#### **Purpose**

Fairfax County Government offers its employees and retirees health insurance options providing choices and competitive premium rates. The County health insurance alternatives include a self-insured point-of-service (POS) plan, a self-insured preferred provider plan (PPO) and two fully insured Health Maintenance Organizations (HMOs) for both active employees and retirees. The County's current health insurance program is a result of revisions enacted in FY 1999 and FY 2001.

Fund 506, Health Benefits Trust Fund, is the administrative unit for the self-insured alternatives. For the self-insured plans, the County pays only for claims and third party administrative fees. The cost to fund claims expenses is covered by premiums from active employees, the employer, retirees and retention of interest earnings.

The self-insured plans (POS and PPO) provide in-network and out-of-network options. The POS plan combines the best features of a health maintenance organization (HMO) and a traditional indemnity plan. The second option provides the choice of a preferred provider plan (PPO) combining an in-network benefit and an out-of-network benefit for those employees and retirees who live outside of the managed care network area.

After slow medical cost growth in the early to mid 90's, spending for health care has been steadily increasing in recent years. Nationwide, cost growth is projected to increase an average of 12 to 15 percent per year. The County health care experience has closely mirrored the national trend. The primary factors in the escalating cost growth are increased utilization and the rising costs of prescription drugs.

As a result of the projected increase in medical and prescription claims, the County's self-insured plan will raise premiums by 25 percent effective January 1, 2004 for the final six months of FY 2004. This will allow the fund to remain solvent and maintain an ending balance to offset unanticipated increases in claims costs.

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The projected 25 percent increase in premiums results in an average monthly increase of \$19.50 for active employees enrolled as an individual in the POS plan and \$22.25 for active employees enrolled as an individual in the PPO plan. In addition, the average monthly increase for active employees enrolled under the family POS plan is \$96.75 and for active employees enrolled in the PPO family plan the increase is \$111.25. It should be noted that the County continues to contribute 85 percent of the total premium for employees enrolled as an individual and 75 percent of the total premium for employees enrolled under either the two-party or family plan. Retirees over the age of 55 currently receive \$100 per month from the County toward the cost of health insurance. Recommended changes to the retiree health subsidy are included as part of the FY 2004 budget. Details on the proposed retiree health subsidy changes will be included as part of the FY 2004 Adopted Budget Plan narrative for Fund 500, Retiree Health Benefits, in Volume 2 Internal Service Funds.

### FY 2004 Initiatives

- ◆ Continue to monitor national health insurance trends particularly as they relate to the County's self-insured plan. Utilize the data to make the necessary revisions to the plan to keep the fund solvent and effective.
- ◆ In consideration of the projected continued escalation of cost growth, and the need to provide a proactive and comprehensive benefits program, staff will continue to explore alternatives for effectively managing the health insurance variables. Available alternatives include managing choices through cost shifting and exploring increased managed care of prescription drug claims.
- ◆ A 25.0 percent premium increase beginning January 1, 2004. The increase is necessary to maintain a revenue stream that will cover the increasing cost of health claims.
- ◆ Maintain an ending balance as a percent of claims paid of approximately 10 percent to ensure that the fund is adequate to support expenditures. It should be noted that an ending balance of 10 to 15 percent of claims paid is targeted based on industry standards.

### Funding Adjustments

*The following funding adjustments from the FY 2003 Revised Budget Plan are necessary to support the FY 2004 program:*

- ◆ An increase of \$7,173,686 primarily due to a 12.5 percent cost growth assumption and anticipated employee participation in the plan. It should be noted that based on year-to-date cost growth, utilization data and employee enrollment information, an adjustment will be required for the fund at the *FY 2003 Third Quarter Review*.

The following funding adjustments reflect all approved changes in the *FY 2003 Revised Budget Plan* since passage of the FY 2003 Adopted Budget Plan. Included are all adjustments made as part of the FY 2002 Carryover Review and all other approved changes through December 31, 2002:

- ◆ There have been no revisions to this fund since the approval of the FY 2003 Adopted Budget Plan.

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### FUND STATEMENT

Fund Type G50, Internal Service Funds

Fund 506, Health Benefits Trust Fund

	FY 2002 Actual	FY 2003 Adopted Budget Plan	FY 2003 Revised Budget Plan	FY 2004 Advertised Budget Plan	FY 2004 Adopted Budget Plan
<b>Beginning Balance</b>	<b>\$5,131,741</b>	<b>\$3,274,423</b>	<b>\$1,672,740</b>	<b>\$4,711,089</b>	<b>\$6,966,899</b>
Revenue:					
Employer Share of Premiums- County Payroll	\$25,482,936	\$30,526,909	\$37,441,725	\$35,836,005	\$35,836,005
Employee Share of Premiums- County Payroll	7,494,133	9,453,466	8,687,325	9,936,850	9,936,850
Employer Subsidy from HMOs	238,142	0	0	0	0
Employee Subsidy from HMOs	68,588	0	0	0	0
Other Funds Premiums	7,877,637	9,574,280	9,369,191	10,668,365	10,668,365
Interest Income	202,351	350,000	109,746	350,000	350,000
Administrative Service Charge	25,808	11,000	29,414	11,000	11,000
<b>Total Revenue</b>	<b>\$41,389,595</b>	<b>\$49,915,655</b>	<b>\$55,637,401</b>	<b>\$56,802,220</b>	<b>\$56,802,220</b>
<b>Total Available</b>	<b>\$46,521,336</b>	<b>\$53,190,078</b>	<b>\$57,310,141</b>	<b>\$61,513,309</b>	<b>\$63,769,119</b>
Expenditures:					
Benefits Paid	\$40,610,994	\$46,507,199	\$46,619,486	\$53,071,797	\$53,071,797
Administrative Expenses	2,078,690	2,738,060	2,605,670	2,913,102	2,913,102
Cost Containment	50,787	55,000	77,336	65,985	65,985
Incurred but not Reported Claims (IBNR)	2,108,125	577,047	1,040,750	1,000,108	1,000,108
<b>Total Expenditures</b>	<b>\$44,848,596</b>	<b>\$49,877,306</b>	<b>\$50,343,242</b>	<b>\$57,050,992</b>	<b>\$57,050,992</b>
<b>Total Disbursements</b>	<b>\$44,848,596</b>	<b>\$49,877,306</b>	<b>\$50,343,242</b>	<b>\$57,050,992</b>	<b>\$57,050,992</b>
Ending Balance:					
Fund Equity	\$7,973,040	\$9,501,166	\$14,307,949	\$11,650,819	\$15,059,285
IBNR	6,300,300	6,188,394	7,341,050	7,188,502	8,341,158
<b>Ending Balance</b>	<b>\$1,672,740</b>	<b>\$3,312,772</b>	<b>\$6,966,899</b>	<b>\$4,462,317</b>	<b>\$6,718,127</b>
<b>Percent of Claims</b>	<b>4.1%</b>	<b>7.1%</b>	<b>14.9%</b>	<b>8.4%</b>	<b>12.7%</b>